

1 **BEFORE THE FEDERAL ELECTION COMMISSION**

2
3 In the Matter of)

4)
5 John Karoly, Jr)
6 Karoly Law Offices, P C) MUR 5504
7 Heather Kovacs)
8 Jayann Brantley)
9 Christina Ligotti)

10
11 **GENERAL COUNSEL'S REPORT #3**

12
13 **I. ACTIONS RECOMMENDED**

14 (1) Find probable cause to believe that John Karoly, Jr and Karoly Law Offices, P C
15 knowingly and willfully violated 2 U S C §§ 441b(a) and 441f, (u) Find probable cause to believe
16 that Heather Kovacs, Jayann Brantley and Christina Ligotti violated 2 U S C § 441f,
17 _____
18 _____

19 **II. BACKGROUND**

20 This matter concerns a knowing and willful reimbursement scheme perpetrated by John
21 Karoly, Jr , the President and Treasurer of incorporated Karoly Law Offices, P C ("Karoly Law
22 Offices") The evidence shows that at Karoly's behest, law firm employees Heather Kovacs,
23 Jayann Brantley, Christina Ligotti, and Gregorio Pagliante and their spouses made \$13,000 in
24 contributions on the same day to Gephardt for President Karoly then caused each of them to be
25 reimbursed with law firm funds Only Pagliante, who has since left the firm, cooperated fully
26 with the Commission's investigation, he admitted in a sworn affidavit that he made \$4,000 in
27 contributions based on Karoly's promise to give him the funds to do so, and that he received the
28 commensurate \$4,000 in cash from the law firm, which he deposited into his personal bank account
29 Kovacs, Brantley and Ligotti each declined to appear at their subpoenaed depositions, but their bank
30 records reflect reimbursements for their contributions to the Gephardt campaign, two of which were

29044244260

1 deposited on the same day as Paghanite's \$4,000 and the third deposited later the same month
2 None of the employees or their spouses had ever made a federal contribution before the
3 contributions at issue

4 On March 12, 2008, this Office served separate General Counsel Briefs, incorporated herein
5 by reference, to counsel representing Karoly, Karoly Law Offices, Kovacs, Brantley and Ligotti
6 The briefs set forth the factual and legal bases upon which we are now prepared to recommend that
7 the Commission make probable cause findings as to Karoly, Karoly Law Offices, Kovacs, Brantley
8 and Ligotti

9 Kovacs, Brantley and Ligotti did not submit Reply Briefs Karoly, who also declined to
10 appear at his subpoenaed deposition, and Karoly Law Offices jointly submitted a three-page letter
11 reply to their General Counsel's Briefs ("Reply") Attachment 2 In the Reply, they do not deny
12 the facts set forth in the General Counsel's Briefs, including those in Paghanite's affidavit, but
13 instead suggest that we gave too much weight to that affidavit and too little to a "bonus" notation on
14 a check that, based on substantial evidence, we concluded was reimbursement for a contribution
15 We discuss below why we believe we gave the appropriate weight to those pieces of evidence,
16 including that the factual record at the close of our investigation is essentially un rebutted, given in
17 part to Respondents' failures to testify under oath

18 Accordingly, for the reasons set forth in the General Counsel's Briefs and discussed below,
19 we recommend that the Commission find probable cause to believe that John Karoly, Jr and Karoly
20 Law Offices, P C knowingly and willfully violated 2 U S C §§ 441b and 441f, and that Heather
21 Kovacs, Jayann Brantley and Christina Ligotti violated 2 U S C § 441f, _____

22 _____

29044244261

II. ANALYSIS

A. KAROLY AND KAROLY LAW OFFICES VIOLATED 2 U.S.C. §§ 441b(a) AND 441f BY ENGAGING IN A REIMBURSEMENT SCHEME USING CORPORATE FUNDS AND KOVACS, BRANTLEY AND LIGOTTI VIOLATED 2 U.S.C. § 441f BY KNOWINGLY PERMITTING THEIR NAMES TO BE USED TO EFFECT CONTRIBUTIONS IN THE NAME OF ANOTHER

In their Reply, Karoly and Karoly Law Offices do not dispute the following key facts in this matter (1) the conduits made their contributions on the same day, the only federal contributions any of them ever made, (2) Paglianite disavowed his initial affidavit, which was identical to the ones submitted by the other conduits, and admitted in a later affidavit that he contributed at Karoly's behest and was reimbursed \$4,000 in cash by him, (3) on October 7, 2003, the same day the law firm cashed a \$12,000 check and Paglianite deposited his \$4,000 cash reimbursement, Brantley deposited \$4,000 in cash, and Ligotti's husband deposited a \$3,000 check from Karoly Law Offices, written from its corporate treasury funds, all in the same amounts as their contributions, (4) Kovacs made the largest deposit into her bank account over an eleven-month period on October 27, 2003, which included \$1,700 in cash, (5) the law firm's payroll records do not reflect that any of the payments in issue constituted regular pay, overtime pay or bonuses, and (6) Karoly, as well as Kovacs, Brantley and Ligotti, all declined to testify at their subpoenaed depositions. They do not even explicitly deny the conclusion that Karoly and Karoly Law offices illegally reimbursed \$13,000 in contributions to Gephardt for President. See 2 U S C § 441f and 11 C F R § 110 4(b)(2) (prohibition of contributions in the name of another applies to any person who helps or assists others in making such contributions) and 2 U S C § 441b(a) (prohibiting contributions from corporations in connection with any election and officers from consenting to corporate contributions)

1 Instead, these Respondents contend that we may have given too much weight to some pieces
2 of evidence and too little to others. For example, they criticize our not giving due credit to the
3 notation on the Ligotti check for \$3,000 that indicated it was a bonus, and our concluding in part
4 from the fact that it was not included in the law firm's payroll records that it represented
5 reimbursement. Reply at 1. They do not dispute, however, that the check, unlike payroll checks,
6 had no payee listed, and that the firm's payroll records reflect no such bonus. Since a bonus is
7 income and reportable to tax authorities, the lack of a business record substantiating this bonus
8 indicates that Ligotti received no bonus. Moreover, they do not dispute that the check was in the
9 same amount as the Ligottis' contributions and was deposited on the same day as the cash payments
10 to Brantley and Pagliante. Finally, both Ligotti and Karoly declined to appear at their subpoenaed
11 depositions to answer questions pertaining to the check. Therefore, it is appropriate to give little or
12 no weight to the bonus notation in the context of the other substantial evidence that the check
13 constituted reimbursement for the Ligottis' \$3,000 contribution to the Gephardt campaign.

14 Karoly and Karoly Law Offices also suggest that we put too much weight on Pagliante's
15 second affidavit, admitting he was reimbursed, without "seriously engag[ing] the question of
16 Pagliante's credibility, or how his conflicting testimony allows such weight to be placed on his
17 most recent assertions." Reply at 2. In response to the complaint, all of the alleged conducts
18 represented by Karoly submitted the same cursory affidavit that states, in its entirety: "My
19 contribution to the Richard Gephardt campaign was not based upon any reimbursement and I
20 received no reimbursement for same." In his second affidavit, Pagliante disavows this statement.

29044244263

1 and fully explains the circumstances under which he was solicited by Karoly with the promise of
2 reimbursement and subsequently reimbursed by him, as well as the fact that Karoly provided him
3 and his wife with this affidavit, telling Pagliante that signing it "would end this matter." See
4 Attachment 1. However, Karoly and Karoly Law Offices do not challenge anything within
5 Pagliante's second affidavit as untrue, neglect the fact that Pagliante cooperated fully with our
6 investigation, and provide no reason for us to doubt his credibility. In fact, in our interviews with
7 him, Pagliante appeared quite credible to us. Pagliante, who was a paralegal when he and his
8 spouse made the reimbursed contributions, is now a practicing attorney and a member of the
9 Pennsylvania Bar. Admitting to violations of the law and signing an affidavit that was wrong, facts
10 against his own interest, in our judgment, enhances his credibility.

11 Moreover, because the respondents refused to testify under oath, the Commission is entitled
12 to give little or no weight to their original affidavits denying reimbursements. They were aware that
13 we had obtained information that undercut their original affidavits, and we sought to depose them in
14 order to elicit sworn testimony that was subject to cross-examination, follow-up, and clarification.
15 Because they chose to invoke the Fifth Amendment and declined to appear, that opportunity was
16 lost. For these types of reasons, federal courts have upheld a district court's power to strike or
17 disregard testimony, live or in the form of an affidavit, from witnesses who assert the Fifth
18 Amendment and refuse to answer the government's deposition questions in order to shield sworn
19 statements from scrutiny. See, e.g., *US v. Parcels of Land*, 903 F.2d 36 (1st Cir. 1990), *Lawson v.*
20 *Murray*, 837 F.2d 653, 656 (4th Cir.), *cert denied*, 488 U.S. 831 (1988) (To allow a witness to
21 testify and then assert the Fifth Amendment to escape scrutiny would be "a positive invitation to
22 mutilate the truth.")

1 In short, Karoly and Karoly Law Offices have not rebutted, in any way, the substantial
2 factual record set forth in their General Counsel's Briefs, which amply support the recommended
3 probable cause findings To the extent there can be any doubt as to the reimbursement of the
4 contributions, given the strong circumstantial evidence and Paghanite's admissions, the
5 Commission is also entitled to draw adverse inferences from Karoly's, Kovacs', Brantley's, and
6 Ligoth's invocation of the Fifth Amendment and refusal to answer questions under oath about the
7 contributions and the law firm's payments to them in the same or similar amounts, *see Chariot*
8 *Plastics, Inc v United States*, 28 F Supp 2d 874, 877 n 1 (S D N Y 1998), *Brinks v City of New*
9 *York*, 717 F 2d 700, 709 (2nd Cir 1983), because "when a party has relevant evidence within his
10 control which he fails to produce, that failure gives rise to an inference that the evidence is
11 unfavorable to him " *International Union (UAW) v NLRB*, 459 F 2d 1329, 1336 (D C Cir 1972),
12 *see also, Arvin-Edison Water Storage Dist v Hodel*, 610 F Supp 1206, 1218 n 41 (D D C 1985)
13 The theory behind this rule is that, all things being equal, "a party will of his own volition introduce
14 the strongest evidence available to prove his case " *International Union (UAW)*, 459 F 2d at 1338
15 If the party fails to introduce such evidence, it may be inferred that the evidence was withheld
16 because it contravened the position of the party suppressing it *Id* Thus, when a party
17 unreasonably resists a subpoena for relevant testimony or documents, it can also be inferred that the
18 refusal to comply with the subpoena indicates that the evidence or testimony would be adverse to
19 the party's position *See id* at 1338-39

20 There is no need for an administrative agency to seek enforcement of the subpoena in court
21 before drawing an adverse inference from the resisting party's failure to comply with it *Id* at
22 1338-39 Moreover, that individual refusals to testify are premised on Fifth Amendment privileges
23 against self-incrimination does not preclude drawing an adverse inference *Baxter v Palmigiano*,
24 425 U S 308, 318 (1976), *see also, SEC v International Loan Network, Inc* , 770 F Supp 678,

29044244265

695-96 (D D C 1991), *aff'd*, 968 F 2d 1304 (D C Cir 1992) (court may draw adverse inference from party's refusal to testify based on Fifth Amendment), *Pagel, Inc v SEC*, 803 F 2d 942, 946-47 (8th Cir 1986) (agency did not err in taking into account adverse inference based on broker-dealer's invocation of Fifth Amendment privilege against self-incrimination)

B. KAROLY'S AND KAROLY LAW OFFICES' VIOLATIONS WERE KNOWING AND WILLFUL

The factual record in this matter establish not only that Karoly and Karoly Law Offices violated 2 U S C §§ 441b and 441f by reimbursing the contributions of others with corporate funds, but that they did so knowingly and willfully. The knowing and willful standard requires knowledge that one is violating the law. *See Federal Election Commission v John A. Dramesi for Congress Committee*, 640 F Supp 985, 987 (D N J 1986). A knowing and willful violation may be established "by proof that the defendant acted deliberately and with knowledge that the representation was false." *United States v Hopkins*, 916 F 2d 207, 214 (5th Cir 1990). An inference of a knowing and willful act may be drawn "from the defendant's elaborate scheme for disguising" his or her actions. *Id.* at 214-15.

John Karoly, Jr is a trial lawyer in Pennsylvania. He reportedly has been active in state, local and federal politics, and attended the 2000 Democratic National Conventions as a delegate prior to the activity discussed herein. Thereafter, he attended the Democratic National Convention as a delegate in 2004 and was a member of the Democratic National Committee in 2004. Since 1998, he has contributed \$17,250 to federal candidates. While a section 441f violation, in which the true source of funds is withheld from the recipient committee, the FEC, and the public, is inherently self-concealing, Karoly also attempted to hide the reimbursements to Paglianite, Brantley, Ligotti and Kovacs by making them in the form of cash or as a bonus check, drafting and submitting false affidavits on behalf of the conduits, which Paglianite, at least, has disavowed, and making another false statement to the Commission during its investigation about Paglianite's availability to appear

1 at a scheduled deposition. See discussion at Section III, *infra*. Moreover, Karoly's representation
2 of Paghamite, Brantley, Ligotti and Kovacs and the law firm was not forthcoming and was
3 consistently characterized by delay.¹ These actions indicate that Karoly deliberately tried to cover
4 up his actions and suppress the truth. When given the opportunity to explain the events in question,
5 he chose to remain silent.

6 Accordingly, we recommend that the Commission find probable cause to believe that John
7 Karoly, Jr. knowingly and willfully violated 2 U.S.C. §§ 441b(a) and 441f. Under well-settled
8 principles of agency law, actions by executive officers are imputed to the company. See *Weeks v*
9 *United States*, 245 U.S. 618, 623 (1988). See also Restatement (Third) of Agency § 2.04 (2006).
10 Karoly is President and Treasurer of Karoly Law Offices. These titles bespeak an individual with
11 significant authority within the corporation, both actual and apparent. Because Mr. Karoly was
12 acting within the scope of his authority as an officer of Karoly Law Offices when he approved the
13 reimbursement of contributions with corporate funds, Karoly Law Offices', as well as Karoly's
14 violations, were knowing and willful. Because Karoly's knowing and willful violations may be
15 imputed to the law firm, we recommend that the Commission find that Karoly Law Offices, P.C.

¹ When we received no response from Karoly to the reason to believe findings and our informal document request, we tried contacting him several times. When we could reach him, he would assert that he was in trial and needed time to locate and organize the records. He ignored our requests for signed tolling agreements. The Commission then issued a subpoena for Karoly Law Office's records. After several months delay, Karoly and Karoly Law Offices retained counsel other than Karoly. New counsel, after a period of delay to come up to speed, submitted a response to the reason to believe findings and, in response to a Commission subpoena, submitted documents from the law firm. Moreover, although Kovacs retained new counsel (twice) at the same time that Karoly sought his own counsel, Karoly continued to represent Brantley and Ligotti for a long time thereafter. Karoly notified us that Brantley would seek new counsel on the day she received the Commission's deposition subpoena, and he notified us that that Ligotti would do the same on the day her deposition was scheduled. We received Brantley's and Ligotti's bank records only after they retained new counsel.

29044244267

1 knowingly and willfully violated 2 U S C §§ 441b(a) and 441f ²

2 The Commission previously made non-knowing and willful reason to believe findings as to
3 Kovacs, Brantley and Ligotti, each of whom were support staff at Karoly Law Offices at the time
4 they were reimbursed We are not recommending knowing and willful probable cause findings as
5 to them because Karoly was their boss and as such, they may not have acted wholly voluntarily
6 Nevertheless, given their failure to cooperate with the investigation and their submission of false
7 and misleading affidavits to the Commission, we recommend that the Commission find probable
8 cause to believe that Heather Kovacs, Jayann Brantley, and Christina Ligotti violated 2 U S C
9 § 441f

10 The Commission has not made reason to believe findings as to any of the other respondents
11 In view of Paghanite's cooperation with our investigation

12
13 we recommend that the
14 Commission take no action and close the file as to him See, e g, MURs 5871 (Noe) _____
15 _____ We also recommend that the Commission take no action and close the file as to
16 Maryellen Paghanite, Theodore Brantley, and Matthew Ligotti, the spouses of Paghanite, Brantley
17 and Ligotti, respectively, who appear to have been secondary, acquiescing conduits added to
18 maximize the contributions Karoly was seeking from his employees See MUR 5765 (Crop
19 Production Services, Inc) (Commission found reason to believe spouses violated section 441f, but
20 took no further action due to their limited role) Finally, we recommend that the Commission take

² The Commission has made knowing and willful section 441b and 441f findings as to corporate principals on agency theories in a number of matters See, e g, MUR 5666 (MZM, Inc), MUR 5514 (Community Water Systems, Inc), MUR 5375 (Laidlaw), MUR 4931 (Audiovox), and MUR 4818 (Roberts for Congress—Stipe Law Firm) In other matters involving allegations of 2 U S C §§ 441b(a) and 441f violations on agency theories, the Commission has not made knowing and willful findings as to corporate respondents that brought the possible violations to the Commission's attention and shared the results of their internal investigations See, e g MUR 5398 (LifeCare Holdings, Inc) and MUR 5187 (Mattel, Inc)

1 no action and close the file as to Rebecca and Joshua Karoly, Karoly's wife and son, Peter Karoly
2 (now deceased), Karoly's brother, and Eric Dahnus, allegedly Karoly's client, all of whom made
3 contributions to Gephardt for President in April 2003, rather than in September 2003, when the
4 Pagliamites, Brantleys, Lagottis, and Kovacs made their contributions. The complaint's allegations
5 as to these respondents were derived solely from public disclosure records, rather than first-hand
6 knowledge, and we found no evidence of reimbursements to them during our investigation to
7 warrant our recommending any findings as to them.

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

29044244269

29044244270

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	

29044244271

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

29044244272

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22

29044244273

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23

29044244274

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____

12 **VI. RECOMMENDATIONS**

- 13 1 Find probable cause to believe that John Karoly Jr and Karoly Law Offices, P C each
14 knowingly and willfully violated 2 U S C §§ 441b(a) and 441f
15
16 2 Find probable cause to believe Jayann Brantley, Christina Ligotti and Heather Kovacs
17 each violated 2 U S C § 441f
18
19 3 _____
20
21 4 Take no action as to Gregorio Paglianite, Maryellen Paglianite, Theodore Brantley,
22 Matthew Ligotti, Rebecca Karoly, Joshua Karoly, Peter Karoly and Eric Dahua, and close
23 the file as to them
24
25 5 _____
26
27
28
29
30
31
32
33
34
35
36

6 Approve the appropriate letters

7/8/2008
Date

Thomasena P. Duncan
Thomasena P Duncan
General Counsel

Ann Marie Terzaken
Ann Marie Terzaken
Associate General Counsel for Enforcement

Susan L. Lebeaux
Susan L. Lebeaux
Assistant General Counsel

Delbert K. Rigsby
Delbert K Rigsby
Attorney

29044244275